

Diomed promoter faced U.S. allegations

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A U.S. company that features former Prime Minister Kim Campbell and Vancouver financier Sam Belzberg as directors is being promoted by a Florida stock promoter who was earlier accused by U.S. securities regulators of bribing brokers.

Diomed Inc., which trades on the American Stock Exchange, zoomed from 25 cents in December to a high of \$8.80 on March 8, due largely to a high-octane promotion involving Patrick Kephart and a host of other penny stock touts.

In 1996, the U.S. Securities and Exchange Commission alleged that Kephart and several other brokers paid \$477,580 in bribes to brokers to induce them to sell penny stocks to their clients, and issued promotional material to prospective investors without telling them they were being paid for their services.

In January, 1998, Kephart -- without admitting or denying the allegations -- agreed to repay \$25,000 in profits from the alleged scheme, plus \$12,000 interest, and to pay a \$25,000 penalty.

Kephart's company, Catalyst Communications, is now an integral part of a promotional campaign that includes the distribution of millions of emails and mailouts beseeching the public to buy the stock.

Diomed, based in Andover, Mass., has laser technology to treat varicose veins and supplies equipment for use in photo-dynamic therapy (a treatment for certain types of cancer).

After obtaining an appraisal valuing the company at \$109 million to \$142 million US, it went public in February by merging with a shell company listed on the OTC Bulletin Board in the U.S.

Emerging as the largest shareholder with 4.4 million shares was Ajmal Khan, chairman of Verus International Group Ltd., a merchant-banking group located in the Cayman Islands. Khan does not sit on the board, but Verus' COO, James Arkoosh, serves as chairman.

Khan, who now splits his time between Barbados and New York, was previously a Vancouver resident along with his brother Arshad. In the mid-1990s, they owned and operated Verus Capital Corp., which renovated and sold condo developments in the Vancouver area with Sam Belzberg, former chair and CEO of First City

Financial Corp.

Belzberg serves as a director of Diomed and his son, Marc, owns 2.8 million shares through his private firm, Winton Capital Holdings Ltd., also domiciled in the Cayman Islands.

Also serving on the board is Peter Norris, former CEO of the Barings Investment Banking Group in England.

In March, 1998, Norris settled (without contesting) an action brought by the U.K. department of trade and industry against him and nine other former directors and officers in connection with the bank's collapse due to the unauthorized trading of rogue bond trader Nick Leeson. He was banned from serving as a director of any U.K. company for four years. That suspension expired several days ago.

After Diomed was reorganized, the company's share price soared. By Feb. 22, when its shares were listed on Amex, it was already over \$7 US.

On March 5, the company announced that Campbell, who completed a four-year term as Canadian consul-general in Los Angeles and is now working at Harvard University, had joined the board.

Three days later, the stock price peaked at \$8.80, but the excitement did not appear related to the company's financial performance, which has been mediocre at best. During the nine months ending Sept. 30, it generated \$6.4 million sales but lost \$6.6 million.

On March 11, New York Post writer Christopher Byron wrote an extremely critical article about Diomed, describing it as "an instructive little pileup in the making" and noting that the company had "just added to its board of directors some pointless window-dressing in the form of a former Canadian prime minister, Ms. Kim Campbell."

He said Diomed's share price is evidence that the bull market has returned: "It is exactly the sort of stock that should send any normal person fleeing the room at the mere mention of its name: suspect auditor [Arthur Andersen], offshore accounts, weird products, teeny-weeny revenues, board members with back-stories -- this stock has it all, the complete package."

According to information received by The Sun, the "complete package" also includes an intensive, highly-organized promotional campaign involving:

- James Stock's Stock Tips: "We have a new year, and a fresh and dynamic growth opportunity to enter the stock market with. ENTER DIOMED!"

- Larry Abraham's Insider Report: "Let's not mince words. I am going to give you

the bottom line right up front. BUY Diomed Inc. and do it now."

- Stockwatch: The Guide to Businesses with Extraordinary Potential: "This Virtually Unknown Medical Company is Poised to Make Huge Profits, for Itself, and for Fortunate Investors Who Get in Early!"

The Stockwatch report (no connection to Canada Stockwatch of Vancouver) states it was paid by Catalyst Communications (Kephart's company), which had been given a marketing budget of \$875,500 US and options to buy 350,000 shares from an unidentified "third-party group with interest in Diomed" to promote the stock.

That same report urges investors to call the company's investor relations department, which turns out to be Sundar Communications, a marketing company located in downtown Vancouver that has been mailing out information CDs and glossy brochures to prospective investors.

Asked whether he knows Kephart, Sundar president Jason Sundar said Tuesday that he does, but refused further comment.

Diomed closed Tuesday at \$5.16 US.

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